

**M e m o r a n d u m****130.0040**

To: West Los Angeles – Auditing (WFW)

Date: January 8, 1965

From: Tax Counsel (WEB)

Subject: [X]

This is in reply to your letter of December 4, 1964, which inquires about the allowance of a bad debt credit to reduce the above-named taxpayer's liability for unpaid sales and use tax for the fourth quarter of 1960.

The accounts receivable which are the subject of this requested credit were sold and assigned by the taxpayer to "X". You have attached a copy of the sales agreement.

Our review of the agreement discloses that the parties contemplated the absolute sale of the accounts receivable for a stated percentage of the book value of the receivables without recourse. Provision was made in the agreement for the withholding of a stated percentage of the sales price as a reserve for uncollectibles. "X" was to collect unpaid accounts from this reserve periodically and pay over the excess of the reserve to the taxpayer. In the event the amount of uncollectible accounts exceeded the reserve, the loss was to be borne by "X" and not by the taxpayer.

Your initial audit investigation discloses that no reserve was available for the recovery of \$53,043.49 of these accounts receivable written off by "X".

It is our opinion that the taxpayer should not be allowed a credit for worthless accounts written off. All information provided indicates that the actual loss on the uncollectible accounts was suffered by "X". The statute contains no authorization for the allowance of a deduction or credit for losses on worthless accounts suffered by another.

WEB:spg [lb]